

**The Independent Commission on Remuneration for
Members of the Executive Council and the Legislature,
and Officials under the Political Appointment System
of the Hong Kong Special Administrative Region**

**Report on the Remuneration Package for
Politically-Appointed Officials serving in the Fourth-Term HKSAR
Government**

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CHAPTER 1: INTRODUCTION

1.1 The Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission) is appointed by the Chief Executive (CE) to, inter alia, advise the Administration of the remuneration packages for Members of the Executive Council (ExCo), the Legislative Council (LegCo) and Politically-Appointed Officials (PAOs). The terms of reference and membership of the Independent Commission are at **Annex A** and **Annex B** respectively.

1.2 According to its terms of reference, the Independent Commission “carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government”. With the fourth-term HKSAR Government (HKSARG) due to assume office in July 2012, the Independent Commission has completed a review of the remuneration package for existing positions of PAOs, on the basis that such positions will continue to exist in the fourth-term HKSARG. The considerations and recommendations of the Independent Commission are set out in Chapters 2-5.

1.3 The terms of reference of the Independent Commission also provide that the Commission “advises the Administration on any matter relating to the remuneration package for Members of the ExCo and the LegCo, and Officials under the Political Appointment System of the HKSAR which the Administration may refer to the Independent Commission from time to time”. The Administration has conveyed to the Independent Commission the invitation of the CE-elect’s Office to advise on the remuneration package for the posts of Deputy Chief Secretary for Administration and Deputy Financial Secretary proposed to be created in the fourth-term HKSARG. The considerations and recommendations of the Independent Commission in this regard are set out in Chapter 6.

Background

1.4 The Administration commissioned a consultant to conduct a study and recommend an appropriate remuneration package for the principal officials (POs) before the introduction of the Political Appointment System in July 2002¹.

1.5 The consultant surveyed the remuneration of 56 Chief Executive Officers (CEOs) in Hong Kong. The median remuneration package of the CEOs was over \$6 million. The consultant recommended that a downward adjustment differential be considered and that the remuneration package for DoBs be set between \$3.66 and \$3.99 million, which falls within the 15th to 20th percentile of the total remuneration of the CEOs surveyed (\$3.48 million per annum and \$4.48 million per annum respectively).

1.6 Subsequently, the HKSARG made a decision to –

- (a) cap the value of the remuneration package for Directors of Bureaux (DoBs) at \$3.76 million², which was equivalent to the annual weighted average costs to the taxpayer of the remuneration package for civil servants at D8 Level; and
- (b) set the pay differential between DoBs, Secretary for Justice (SJ), Financial Secretary (FS) and Chief Secretary for Administration (CS) at 3.5% for each tier.

1.7 The above proposals were approved by the LegCo Finance Committee (FC) in 2002³.

¹ A total of 14 POs, i.e. three Secretaries of Department (the Chief Secretary for Administration, Financial Secretary and Secretary for Justice) and 11 Directors of Bureau, were appointed on contract.

² The remuneration package for DoBs proposed by the Administration comprises three parts, i.e. \$3,742,800 per annum for cash remuneration (\$311,900 per month), \$12,000 per annum for MPF contribution and \$5,808 for medical and dental coverage a year. The cash remuneration proposed was 38.1% below the median total direct compensation of the CEOs surveyed (\$6,045,000).

³ In accordance with the employment package approved by the LegCo FC in June 2002, the cash remuneration for DoBs would be subject to adjustment according to the 2002 civil service pay cut (-4.42%). As a result, the monthly cash remuneration for DoBs was reduced from \$311,900 to \$298,115 per

1.8 In 2007, the Political Appointment System was expanded with the creation of two additional layers of PAOs, namely Under Secretaries and Political Assistants. Based on the remuneration ranges approved by the LegCo FC, the cash remuneration for Under Secretaries is pitched at a range equivalent to 65% to 75%⁴ of that for a DoB. As regards Political Assistants, their cash remuneration is pitched at a range equivalent to 35% to 55%⁵ of that for a DoB.

1.9 At present, the Political Appointment System comprises 40 positions, of which 32 are filled.

Current Remuneration Package for PAOs

Cash Remuneration

	Amount approved by the LegCo FC in 2002 and 2007 (Monthly) (HK\$)	After the voluntary pay cut in 2009 (-5.38%) (Monthly) (HK\$)
CS	330,565	312,785
FS	319,385	302,205
SJ	308,585	291,985
DoBs (12 in total)	298,115	282,080
Director of the CE's Office		

month.

⁴ The remuneration range for Under Secretaries is broadly equivalent to the remuneration of a D4 to D6 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

⁵ The remuneration range for Political Assistants is broadly equivalent to the remuneration of a senior professional to D2 civil servant on agreement terms with all allowances and end-of-contract gratuity encashed.

Under Secretaries (11 in total, of which 7 are filled)	193,775 - 223,585	183,350 - 211,560
Political Assistants (13 in total, of which 9 are filled)	104,340 - 163,960	98,730 - 155,140

Other Benefits

1.10 In addition to cash remuneration, the PAOs are also eligible for –

- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days, any accumulated leave will be forfeited upon leaving office);
- (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
- (c) Mandatory Provident Fund contribution by the Government;
- (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of the CE's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
- (e) an official residence and an non-accountable entertainment allowance⁶ for each of the Secretaries of Departments.

Adjustment to the PAOs' Remuneration

1.11 No mechanism for annual adjustments of PAOs' remuneration has since been established. Nevertheless, there have been

⁶ Non-accountable entertainment allowance is a perquisite associated with an official residence for meeting expenses for official entertainment at the official residence.

two occasions of voluntary pay reduction by PAOs since 2002 –

- (a) the CE announced in the 2003 Policy Address that all PAOs accepted a 10% voluntary reduction of their remuneration from 1 April 2003⁷; and
- (b) the CE announced on 16 June 2009 that all PAOs accepted a 5.38% voluntary reduction of their remuneration from 1 July 2009.

⁷ The 10% pay cut does not apply to the current term HKSAR Government which took office on 1 July 2007. Accordingly, the remuneration for PAOs has been restored thereafter to the level approved by the LegCo FC in 2002.

CHAPTER 2: APPROACH AND GENERAL PRINCIPLES AND CONSIDERATIONS

APPROACH

2.1 The Independent Commission commissioned a consultant to gather information about the remuneration practices in overseas jurisdictions and assess the change since 2002 in pay levels for positions of comparable responsibilities in the private sector. The consultant's report is at Annex C.

Overseas Practices

2.2 The consultant has looked into the remuneration practices in six overseas jurisdictions, i.e., the United Kingdom, the United States, Canada, Australia, New Zealand and Singapore. The consultant's conclusion is that due to the differences in the political systems and socio-economic situations, approaches taken in the selected jurisdictions may not be applicable to Hong Kong. The consultant suggests that the PAOs' remuneration be reviewed and adjusted having regard to the performance of Hong Kong's economy, the relevant pay levels of the public and private sectors, and the institutional needs of the HKSARG.

Local Remuneration Survey

2.3 A total of 229 companies/organizations were invited and 64 participated in the survey. The findings show that there has been a clear and substantial increase in the pay for the senior executives over the past ten years. For example, the average total direct compensation (i.e., total remuneration less the elements relating to retirement benefits or end-of-contract gratuity payments) for the senior executives surveyed has increased by 38% as compared with the findings of the consultancy study in 2001/02.

2.4 The consultant recommends that the median level of total direct compensation of the senior executives covered in the survey (i.e., \$6,535,000 per annum) should be used as the reference point for DoBs' pay. Adopting the discounting factor used in 2002⁸, the consultant recommends an annual pay of \$4,045,200 (or \$337,100 per month) for

⁸ A discount of 38.1% of the reference point, see footnote 2 above.

DoBs serving in the fourth-term HKSARG. This proposed level of pay falls between the 10th (\$3,386,574 per annum) and 15th percentile (\$4,365,786 per annum) of the total direct compensation for the senior executives surveyed.

General Principles and Considerations

2.5 During the review process, the Independent Commission has due regard to the following considerations –

- (a) performance of Hong Kong's economy;
- (b) changes in Consumer Price Index (C);
- (c) market pay practices for positions in the private sector with responsibilities comparable to PAOs; and
- (d) remuneration for PAOs should be commensurate with their responsibilities.

CHAPTER 3: CASH REMUNERATION

DoBs

Current Situation

3.1 The cash remuneration for DoBs is the benchmark for determining the levels of cash remuneration for other PAOs. The annual remuneration approved by the LegCo FC in 2002 and again in 2007 for DoBs is \$3,577,380 (\$298,115 per month)⁹.

Considerations

3.2 In considering whether any adjustment should be made to DoBs' remuneration, the Independent Commission has taken into account the following –

(a) Performance of Hong Kong's economy

The Hong Kong's economy has continued to expand in the past ten years despite the ups and downs in the international environment. Between 2002 and 2011, the cumulative growth in GDP in real terms is 52.4% (see **Annex D** for details). Unemployment rate fell from 7.5% in the second quarter of 2002 to 3.4% for January - March 2012.

(b) Changes in Consumer Price Index (C)

The cumulated increase in Consumer Price Index (CPI) (C) for the period from 2002 to 2011 is 15.3% (see **Annex D** for details).

(c) Market pay practices for positions in the private sector with responsibilities comparable to PAOs

According to the findings of the survey conducted by the consultant (see Chapter 4 in **Annex C** for details), the median and average total direct compensation for the senior

⁹ Following a voluntary pay reduction of 5.38% in 2009, the monthly pay for DoBs was reduced to \$282,080.

executives surveyed has increased by 8% and 38% respectively as compared with the findings of the consultancy study in 2001/02.

- (d) Remuneration for DoBs should be commensurate with their responsibilities

There is increasing pressure for DoBs to be held politically accountable for the outcome of their policies and the services delivered by their executive departments.

3.3 Having regard to the above, the Independent Commission considers that the current level of remuneration for DoBs –

- (a) does not reflect the economic growth in Hong Kong from 2002 to 2011;
- (b) does not reflect the cumulative increase in CPI(C) over the same period;
- (c) falls behind changes in the private sector pay over the same period; and
- (d) is not commensurate with the level of responsibility for DoBs.

3.4 That said, the Independent Commission also recognises that the community would generally regard public service at the top political layers to be an honour for those who have a sense of mission to serve Hong Kong, and might not accept a substantial increase in the remuneration for DoBs.

Recommendations

3.5 On balance, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the cash remuneration for DoBs should be increased by 15.3% (which is equivalent to the cumulative increase in CPI(C) for the period from 2002 to 2011, see paragraph 3.2(b) above) on the basis of the level approved by the LegCo FC in 2002, viz. from \$3,577,380 to \$4,124,760 per annum¹⁰, or from

¹⁰ The costs for Mandatory Provident Fund contribution (\$12,000 per annum) and medical and dental benefits (\$7,728 per annum for 2011/12) are not included.

\$298,115 to \$343,730 per month¹¹. The Independent Commission considers that this recommendation is reasonable because it will compensate for the erosion of the purchasing power of a DoB's cash remuneration for the last 10 years. Moreover, it is in line with the fact that Hong Kong's economy has grown over the last 10 years and the general trend that the pay of positions of comparative responsibilities in the private sector has increased over the last 10 years.

3.6 The Independent Commission notes that after implementing this increase, the cash remuneration for DoBs will be about 18%¹² above the value of the current total remuneration package for civil servants at the D8(2) rank (as at March 2012)¹³. The Independent Commission considers that this is not unreasonable because of the increasing expectations and pressures on PAOs.

Secretaries of Departments

Current Situation

3.7 At present, the differential in cash remuneration between DoBs, SJ, FS and CS is 3.5%.

Considerations and Recommendation

3.8 On the basis that there is no substantial change in their roles, the Independent Commission considers it appropriate to maintain the 3.5% pay differential for the fourth-term HKSARG. This will bring the

The proposed level of remuneration for DoBs would also apply to the Director of the CE's Office. Prior to 1 July 2007, the remuneration for the Director of the CE's Office was pitched at the equivalent of those applicable to the civil service rank at D8 level. The salary, fringe benefits and gratuity of the appointment was similar to and no better than those in respect of the equivalent rank in the civil service. As from 1 July 2007, the terms of employment of the post of Director of CE's Office was aligned with those of a DoB.

¹¹ Rounded up to the nearest \$5.

¹² This differential would be reduced if there is any salary increase for D8 civil servants in 2012-13.

¹³ The total value of the remuneration package for civil servants at the D8(2) rank is around \$3.5 million per annum as at March 2012.

total cash remuneration for SJ, FS and CS to \$4,269,180, \$4,418,640 and \$4,573,320 per annum (or \$355,765, 368,220 and \$381,110 per month) respectively.

Under Secretaries

Current Situation

3.9 At present, the cash remuneration for Under Secretaries is set at 65% to 75% of that for DoBs.

Considerations and Recommendation

3.10 While the Independent Commission agrees that a pay range provides some flexibility in recruiting different talents, having regard to the fact that the Under Secretaries are supposed to perform similar levels of duties, there is a case for simplifying the system.

3.11 Accordingly, we recommend that the pay range of Under Secretaries be pegged to a single point, i.e., 70% of DoBs' remuneration. This will bring the cash remuneration for Under Secretaries to \$2,887,380 per annum (or \$240,615 per month).

Political Assistants

Current Situation

3.12 At present, the cash remuneration for Political Assistants is set at 35% to 55% of that for DoBs.

Considerations and Recommendation

3.13 The Independent Commission considers that the job description designed for Political Assistants has limited them largely to internal activities or behind-the-scene lobbying, resulting in the public having very little knowledge about their work. The Independent Commission considers it reasonable to lower the cash remuneration for Political Assistants to 30% of that for DoBs (i.e., at about \$100,000 per month or \$1.2 million per annum after DoBs' pay is revised as set out in paragraph 3.5 above) because it is probably closer to the market for the type of talents which might be attracted to fill these positions.

3.14 The Independent Commission notes that the CE-elect has proposed that the PAOs serving in the fourth-term HKSARG would need to increase public engagement at the district level. The Independent Commission also notes that the fourth-term HKSARG may engage a number of political assistants (e.g. two or three Assistants) in each Bureau to provide support for the POs as well as to develop a pool of political talents. Accordingly, it is expected that Political Assistants serving in the fourth-term HKSARG will take up more public engagement and lobbying work at district level, assist in gauging views from the community on issues of concern, and take up more work in explaining government policies during consultations.

3.15 Given that the types of talents for the level of Political Assistants could come from different backgrounds, it would be difficult for the Independent Commission to recommend a single level of remuneration for all Political Assistants.

3.16 In the light of the above, the Independent Commission recommends that the total cash remuneration for Political Assistant(s) engaged by each PO (except the SJ and the Secretary for the Civil Service who would not be underpinned by Political Assistants) should be capped at \$1.2 million per annum (or capped at \$100,000 per month).

3.17 This should enable POs more flexibility to engage a wider range of talents with different experiences and background. Nevertheless, appropriate safeguards should be put in place to ensure that the level of remuneration for individual Political Assistants is determined properly with reasonable internal relativities.

CHAPTER 4: OTHER COMPONENTS OF THE REMUNERATION PACKAGE

Current situation

- 4.1 In addition to cash remuneration, the PAOs are eligible for –
- (a) annual leave of 22 days per annum (subject to a maximum accumulation limit of 22 days, any accumulated leave will be forfeited upon leaving office);
 - (b) medical and dental benefits on the same basis as those provided to civil servants during the term of their employment;
 - (c) Mandatory Provident Fund contribution by the Government;
 - (d) use of a car and driver when in Hong Kong at his discretion for each of the Secretaries of Departments and DoBs as well as for the Director of the CE's Office. Departmental transport for Under Secretaries is provided by relevant policy bureaux/offices from their internal resources; and
 - (e) an official residence and an non-accountable entertainment allowance for each of the Secretaries of Departments.

4.2 The Independent Commission recommends that the above measures should continue to be adopted for PAOs serving in the fourth-term HKSARG except for the leave arrangements. The considerations are set out below.

Considerations

4.3 At present, any accumulated leave owing to the PAOs will be forfeited upon resignation, termination of contract, or expiry of contract. The Independent Commission notes that this is different from the arrangements provided for civil servants or Non-Civil Service Contract staff, for whom accrued leave (subject to the prescribed ceilings) will either be granted in the form of paid leave or encashed upon leaving the service.

4.4 Having regard to their roles and responsibilities, the Independent Commission considers it impracticable for the PAOs to take all their accumulated leave in one block as in the case of retiring civil servants before their term of appointment ends. Hence, the Independent Commission recommends that, with effect from the fourth-term HKSARG, the arrangements for PAOs should be brought in line with that for civil servants on new terms, i.e., to allow encashment of leave balance accrued up to and including the end date of the appointment of the PAOs.

CHAPTER 5: ADJUSTMENT MECHANISM FOR THE REMUNERATION FOR PAOS

Current Situation

5.1 At present, there is no adjustment mechanism for the remuneration for PAOs. Nevertheless, there were two occasions of voluntary pay reduction in 2003 and 2009 respectively.

Considerations

5.2 The Independent Commission considers it necessary to put in place an objective and transparent adjustment mechanism to ensure that the remuneration of PAOs is adjusted from year to year in line with movements in the economy. In this regard, we have considered two options –

Option A: to adjust the remuneration in accordance with the CPI(C);
or

Option B: to adjust the remuneration in accordance with the rate of civil service pay adjustment for the upper salary band.

Option A

5.3 The CPI(C) is an objective and transparent economic indicator which measures the changes over time in the price level of consumer goods and services generally purchased by households in the relatively high expenditure range. The Independent Commission notes that the remuneration of the ExCo and LegCo Members are also adjusted in line with the movement of CPI(C).

5.4 Nevertheless, the Independent Commission also notes that there is a possibility that CPI(C) and the economy move in opposite directions¹⁴. It may not be entirely appropriate to increase the remuneration for PAOs during an economic downturn even though there is an increase in CPI(C).

¹⁴ For example, in 2009, CPI(C) registered an increase of 0.6% over 2008, while the real Gross Domestic Product contracted by 2.6%.

Option B

5.5 The annual adjustment to civil service pay is determined after taking into account the relevant factors under the annual civil service pay adjustment mechanism (viz. the net Pay Trend Indicators¹⁵, state of the economy, changes in the cost of living, the Government's fiscal position, staff sides' pay claims and civil service morale). Although the remuneration for PAOs is not directly linked to civil service pay, the public may generally regard PAOs as public servants and may not resist the idea of adjusting the remuneration for PAOs in line with civil service pay adjustments.

5.6 Nevertheless, as the annual civil service pay adjustment is decided by the CE-in-Council and the Secretaries of Departments and DoBs are ex-officio members of the ExCo, tying remuneration adjustments for PAOs to civil service pay adjustments may arouse concerns about potential conflicts of interest.

Recommendations

5.7 Taking all factors into consideration, the Independent Commission recommends that the remuneration for PAOs should be adjusted annually in line with the movement of CPI(C). This can maintain the real value of the pay set for PAOs and avoid concerns about potential conflicts of interest. This approach is also consistent with the recommendation in Chapter 3 to increase the PAOs' cash remuneration by the cumulated change in CPI(C) movements in the last 10 years.

¹⁵ Net Pay Trend Indicators are derived from the findings of the annual pay trend survey commissioned by the tripartite Pay Trend Survey Committee, comprising representatives of the staff sides, management representatives, and members from two independent advisory bodies on civil service salaries and conditions of service.

CHAPTER 6: REMUNERATION PACKAGE FOR DEPUTY SECRETARIES OF DEPARTMENTS

Cash Remuneration

Considerations and Recommendation

6.1 The Independent Commission has been advised that two new posts (namely Deputy Chief Secretary for Administration (DCS) and Deputy Financial Secretary (DFS)) will be created for the fourth-term HKSARG. The Administration has conveyed to the Independent Commission the invitation of the CE-elect's Office for advice on the remuneration package for the posts of DCS and DFS.

6.2 The Independent Commission notes that the main responsibilities for DCS and DFS are to assist CS and FS respectively in developing closer cooperation between the HKSAR and the Mainland; coordinating policy formulation and implementation in specific policy areas; overseeing the work of a number of policy bureaux; and promoting Hong Kong's developments on different fronts. The Independent Commission notes that the two posts should be pitched between Secretaries of Departments and DoBs and that the two posts should be of the same rank.

6.3 Having regard to the above, the Independent Commission recommends that the cash remuneration for DCS and DFS should be pitched midway between that for SJ and that for DoBs (i.e., \$4,196,940 per annum or \$349,745 per month) on the assumption that the posts of DCS and DFS will be created with effect from the fourth-term HKSARG.

Other Components of the Remuneration Package

Considerations and Recommendation

6.4 Having considered the ranking of Deputy Secretaries of Departments, the Independent Commission considers that they should be eligible for broadly the same benefits as those enjoyed by Secretaries of Departments (as set out in Chapter 4), except that they would not be entitled to official residences and non-accountable entertainment allowance.

CHAPTER 7: SUMMARY OF RECOMMENDATIONS

- 7.1 To sum up, the Independent Commission recommends –
- (a) the cash remuneration for DoBs be increased by 15.3% on the basis of the level approved by the LegCo FC in 2002, viz. from \$3,577,380 to \$4,124,760 per annum (or from \$298,115 to \$343,730 per month);
 - (b) the differential in cash remuneration between DoBs, SJ, FS and CS be maintained at 3.5% for each tier;
 - (c) the cash remuneration for Deputy Secretaries of Departments be pitched midway between that for SJ and that for DoBs (i.e., 1.75% above that for DoBs);
 - (d) the cash remuneration for Under Secretaries be set at 70% of that for DoBs;
 - (e) the total cash remuneration for Political Assistant(s) engaged by each PO (except the SJ and the Secretary for the Civil Service) should be capped at \$1.2 million per annum (or capped at \$100,000 per month);
 - (f) the cash remuneration for PAOs be adjusted annually in line with the movement of CPI(C); and
 - (g) the leave arrangements for PAOs be brought in line with that for civil servants on new terms, i.e., to allow encashment of leave balance accrued up to and including the end date of the appointment of the PAOs, and other components of the existing remuneration package for PAOs be retained. Deputy Secretaries of Departments should be eligible for broadly the same benefits as those enjoyed by Secretaries of Departments, except that they would not be entitled to official residences and non-accountable entertainment allowance.
- 7.2 The details are set out in **Annex E**.